IOI Corporation (IOI MK)

FY26 To Remain Anchored By Upstream Earnings

HOLD (Maintained)

Share Price	RM3.95
Target Price	RM3.70
Upside	-6.3%

Highlights

- **We came away from IOI's FY25 briefing** feeling optimistic on its plantation segment's outlook heading into FY26, with FFB growth guided higher at +5-10% yoy. However, its downstream segment is still not out of the woods, with persisting challenges faced by both the refining and oleochemical sub-segments.
- **FY26 core earnings growth is expected to be flattish** given its uneven business prospects. Downstream profitability is expected to recover quicker from FY27 onwards.
- **Maintain HOLD** on IOI with a higher target price of RM3.70.

Analysis

- **FY25 recap.** The group adjusted pre-tax profit rose 17% yoy to RM1.62b, predominantly driven by its upstream plantation segment whose underlying EBIT rose 30% yoy to RM1.57b – mainly on higher ASPs (CPO +12%, PK +50%) while fresh fruit bunch (FFB) production merely increased 1% amid accelerated replanting activities. For its downstream segment, underlying EBIT fell 49% to RM149m given weaker performances across sub-segments – particularly for its refinery operations which barely broke even vs FY24's EBIT contribution of RM98.5m.
- **Plantation segment to maintain positive performance.** Management expects upstream performance to remain positive in FY26, with FFB production growth guided to reach +5-10% yoy despite continuing accelerated replanting next year (FY25: 9,500 ha, FY26F: 12,000 ha), attributable to its estates' improving yield and age profile (end-FY25: 12.2 years average) with certain batches of young palms approaching maturity. For reference, 4QFY25 FFB output grew 14% yoy with harvested mature area down 6% yoy whereas FFB yield rose 21% yoy. Overall weather conditions are also anticipated to be more favourable vs FY25, which was partly affected by heavy rainfall for a few months.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	9,604	11,335	11,146	11,349	11,459
EBITDA	1,537	1,837	1,914	1,997	2,067
Operating profit	1,140	1,432	1,482	1,549	1,608
Net profit (rep./act.)	1,088	1,521	1,359	1,450	1,512
Net profit (adj.)	1,088	1,320	1,359	1,450	1,512
EPS (sen)	17.3	21.0	21.6	23.1	24.1
PE (x)	21.5	18.8	18.3	17.1	16.4
P/B (x)	2.0	2.0	1.9	1.8	1.7
EV/EBITDA (x)	24.6	14.6	14.1	13.3	12.6
Dividend yield (%)	2.6	2.7	2.8	3.0	3.2
Net margin (%)	11.3	13.4	12.2	12.8	13.2
Net debt/(cash) to equity (%)	13	13.3	13.3	9.7	6.0
Interest cover (x)	13	17.1	18.4	19.7	23.2
ROE (%)	9.5	14.2	12.3	12.7	12.9
Consensus net profit	-	-	1,310	1,321	1,389
UOBKH/Consensus (x)	-	-	1.04	1.10	1.09

Source: IOI Corporation, Bloomberg, UOB Kay Hian

Analyst(s)
Lester Siew
lestersiew@uobkayhian.com
+603 2147 1990

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	IOI MK
Shares issued (m):	6,285.2
Market cap (RMm):	24,826.5
Market cap (US$m):	5,902.7
3-mth avg daily t'over (US$m):	2.2

Price Performance (%)

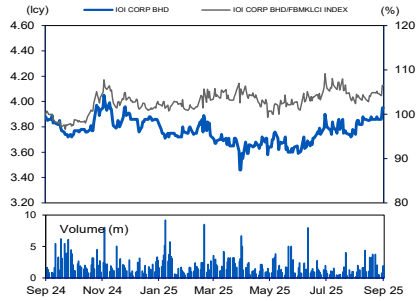
52-week high/low RM4.08/RM3.42

1mth	3mth	6mth	1yr	YTD
5.6	8.2	6.5	1.8	(2.1)

Major Shareholders

Progressive Holdings SB	50.5%
FY25 NAV/Share (RM)	1.96
FY25 Net Debt/Share (RM)	0.26

Price Chart



Source: Bloomberg

Company Description

Integrated palm oil player.

- **Commodity price expectations.** IOI sees CPO prices – currently trading around RM4,400/tonne – to be supported near-term by festive demand until Oct/Nov 25. Separately, fertiliser prices have also been picking up recently and this is expected to raise FY26's manuring costs by high single-digits.
- **Downstream outlook still subdued.** The segment's prospects are expected to remain challenging, with profit margins still being pressured despite management observing an uptick in overall demand. Its refining sub-segment is currently still facing intense competition with Indonesia's refiners benefitting from raw material cost advantages. On the other hand, the oleochemical sub-segment's prospects are deemed relatively better despite also facing challenges arising from the fluid macro environment as well as elevated feedstock costs; management expects oleochemicals' contribution to recover going forward with higher plant utilisation rates (>60%) in FY26, given improving customer demand. As for its specialty fats sub-segment (associate business), management expects FY26 performance to remain satisfactory despite raw material costs trending upwards
- **Other briefing takeaways.** a) Capex is expected to rise to RM900m in FY26 (FY25: c.RM700m) mainly due to increased replanting activities (tail-end of group's accelerated replanting programme), and its ongoing construction of an oleochemicals plant for fatty esters (one of the more profitable products) in addition to its specialty fats associate's ongoing plant expansion; b) Management sees headroom to leverage up given its relatively low net gearing of 0.14x as at end-FY25, with capacity to go up to 0.30x although no major plans are firmed up at the moment. On the flipside, dividend payouts are still expected to remain at around 50% of the group's underlying profit.

Valuation/Recommendation

- **Maintain HOLD with a higher target price of RM3.70,** from RM3.60 previously. While we are positive on IOI's upstream production growth trajectory, we remain wary of its downstream segment's continued underperformance. Upside risks to our call include a sharper-than-expected improvement in downstream segment margins whereas downside risks include weaker-than-expected FFB output. Our SOTP valuation parameters remain unchanged, at 17x FY25F PE for the plantation division, 15x FY25F PE for the resources-based manufacturing (downstream) division, fair value estimate of S$0.90/share for its 32% stake in Bumitama Agri and 18x for the contribution from associate Loders.

Earnings Revision/Risk

- **FY26-27 estimates raised slightly.** Post-FY25 results, we raised FY26-27F earnings by 3.2%/0.7% mainly on improved FFB production growth assumptions, while also introducing our new FY28F estimates. For FY26, we continue to forecast flattish growth in core earnings (+2.9% yoy), with the plantation segment's stronger FFB growth making up for lower expected ASPs while FY26's downstream segment contribution is expected to recover only back to FY24's base – still well below previous years' levels – with a quicker recovery projected from FY27 onwards.

Share Price Catalyst

- Better-than-expected CPO prices.
- Higher-than-expected FFB production growth.
- Improvement in its downstream margin.

Key Assumptions

	FY26F
FFB production growth	6.1% yoy
CPO Prices	RM4,000/tonne
Downstream Margin	1.5%

Source: UOB Kay Hian

SOTP Valuation

	PE (x)	RM/share
Plantations	17	2.92
Manufacturing	15	0.27
Stake in Bumitama (Fair value: S$0.78/share)	-	0.26
Contribution from Loders	18	0.50
Less: Net Debt		(0.26)
IOI's fair value (round-off)		3.70

Source: IOI Corporation, UOB Kay Hian

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	11,335	11,146	11,349	11,459
EBITDA	1,837	1,914	1,997	2,067
Deprec. & amort.	405	431	448	459
EBIT	1,432	1,482	1,549	1,608
Total other non-operating income	0	0	0	0
Associate contributions	351	337	371	389
Net interest income/(expense)	(107)	(104)	(101)	(89)
Pre-tax profit	1,878	1,716	1,819	1,908
Tax	(341)	(343)	(354)	(381)
Minorities	(16)	(14)	(15)	(15)
Net profit	1,521	1,359	1,450	1,512
Net profit (adj.)	1,320	1,359	1,450	1,512

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	9,532	9,814	10,083	10,328
Other LT assets	3,184	3,215	3,247	3,279
Cash/ST investment	1,452	1,336	1,291	1,788
Other current assets	125	125	125	125
Total assets	17,792	18,126	18,518	19,239
ST debt	709	709	709	709
Other current liabilities	260	260	260	260
LT debt	2,807	2,618	2,430	2,098
Other LT liabilities	1,206	1,056	906	906
Shareholders' equity	11,582	12,202	12,879	13,641
Minority interest	344	358	372	382
Total liabilities & equity	17,792	18,126	18,518	19,239

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	944	1,366	1,702	1,800
Pre-tax profit	1,878	1,714	1,817	1,906
Tax	(341)	(343)	(354)	(381)
Deprec. & amort.	405	431	448	459
Working capital changes	(275)	(270)	(41)	(22)
Other operating cashflows	(722)	(165)	(167)	(162)
Investing	-537	-536	-536	-536
Capex (maintenance)	(700)	(900)	(700)	(700)
Investments	(536.5)	(735.5)	(535.5)	(535.5)
Proceeds from sale of assets	2	3	3	3
Others	162	162	162	162
Financing	(864)	(909)	(956)	(988)
Dividend payments	(660)	(706)	(753)	(785)
Issue of shares	0	0	0	0
Proceeds from borrowings	3	4	4	4
Loan repayment	(193)	(193)	(193)	(193)
Others/interest paid	(14)	(14)	(14)	(14)
Net cash inflow (outflow)	(456)	(278)	211	277
Beginning cash & cash equivalent	2,182	1,578	1,300	1,511
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,725	1,300	1,511	1,788

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.3	16.3	16.5	16.5
Pre-tax margin	16.1	15.6	16.3	16.3
Net margin	12.1	11.7	12.3	12.3
ROA	7.6	7.6	8.2	8.2
ROE	12.6	12.4	13.1	13.1
Growth				
Turnover	12.2	4.4	4.3	4.3
EBITDA	21.1	-1.6	5.4	5.4
Pre-tax profit	24.2	0.7	9.3	9.3
Net profit	17.8	0.7	9.3	9.3
Net profit (adj.)	17.8	0.7	9.3	9.3
EPS	17.8	0.7	9.3	9.3
Leverage				
Debt to total capital	29.5	26.5	23.7	23.7
Debt to equity	30.3	27.3	24.4	24.4
Net debt/(cash) to equity	17.8	16.3	14.3	14.3
Interest cover (x)	12.2	12.9	14.8	14.8

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore.Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2025, UOB Kay Hian Pte Ltd. All rights reserved.

http://research.uobkayhian.com

RCB Regn. No. 197000447W